

ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

RECEIVED

OCT 16 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

Inquiry Concerning Deployment of
Advanced Telecommunications
Capability to All Americans in a Reasonable
And Timely Fashion, and Possible Steps
To Accelerate Such Deployment
Pursuant to Section 706 of the
Telecommunications Act of 1996

CC Docket No. 98-146

REPLY COMMENTS OF CENTRAL SCOTT TELEPHONE CO.
AND ELKHART TELEPHONE COMPANY, INC.

James U. Troup
Robert H. Jackson

Arter & Hadden, LLP
1801 K Street, N.W., Suite 400K
Washington, D.C. 20006
202-775-7100

Their Attorneys

October 16, 1998

No. of Copies rec'd
List ABOVE

015

Table of Contents

SUMMARY	ii
THE NATURE OF RURAL MARKETS	2
A. Service Availability and Service Quality in Rural Markets Often Exceeds That of Many Urban Markets	3
B. Rural Markets Need Flexible Regulatory Policies, Rather Than a Forced Appliqué of Rules Designed for the Large Metropolitan Markets	5
C. The Telecommunications Needs of Rural Customers	6
D. The Laws of Supply and Demand Are Equally Applicable in Rural Markets as in Metropolitan Markets	7
CAUSES OF SLOW DEPLOYMENT OF NEW TECHNOLOGY	8
A. The FCC's Policies Should Encourage Every Carrier to Invest in New Technologies, Which Will Drive Down Prices for Rural Carriers	8
B. The FCC Must Ensure that Its Cost Allocation Rules Do Not Operate to Discourage Investment in Advanced Telecommunications Capabilities in Order to Create an Access Charge Windfall for Large Interexchange Carriers	9
C. Different Regulatory Policies Are Needed for Those Carriers Whose "Last Mile of Plant" Extends for Many Miles	11
D. Forbearance from Price Regulation	12
E. The Imposition of Expanded Interconnection, Unbundling and Resale Rules on Rural ILECs Will Cause Rural Markets to Lag Metropolitan Markets	13
THE "PRICING REFORM" ADVOCATED BY THE ALLIANCE FOR PUBLIC TECHNOLOGY IS FLAWED AND CONTRARY TO THE PUBLIC INTEREST	14
UNIVERSAL SERVICE AND ADVANCED TELECOMMUNICATIONS CAPABILITY	15
CONCLUSION	18

Summary

Central Scott Telephone Co. and Elkhart Telephone Company, Inc. are two small ILECs,^{*} serving small towns and rural markets in Iowa and Kansas respectively, that have joined together to file reply comments in this proceeding to support policies that encourage the deployment of advanced telecommunications capability in rural markets. Our reply comments are limited generally to the FCC's questions about advanced telecommunications capability in rural areas. Contrary to the comments of many parties, including ALTS, that argue that the FCC should adopt a single set of rules and policies for all ILECs, rural markets are different than urban markets. Rather, the FCC should adopt rules and policies for small ILECs as proposed in these reply comments.

Rural markets have fewer customers than urban and suburban markets. Also, rural customers are located at greater distances from both the serving ILEC's central office switch and from each other, than are customers in other markets. These factors increase a rural carrier's costs of delivering service to customers. Unless rural carriers can generate sufficient revenues to cover the costs of deploying a new technology, then it will not be deployed in rural markets.

Small and rural ILECs have invested heavily in their networks to deliver high-quality services to their customers. Service availability and service quality in rural markets often exceeds that of many urban markets. Because of the differences between rural and urban markets, the FCC should adopt flexible and deregulatory policies for small ILECs. Rural

^{*} All abbreviations are explained in the main text of the comments.

markets need flexible regulatory policies, rather than a forced appliqué of rules designed for the large metropolitan markets.

The telecommunications needs of rural customers are similar to those of customers in larger markets. The laws of supply and demand are equally applicable in rural markets as in metropolitan markets. The FCC should, therefore, adopt policies that create incentives for small ILECs to invest in new technologies. The FCC should not allow its cost allocation rules to penalize small ILECs that invest in advanced telecommunications capabilities by lowering their access charge rate levels, as the result would be an unwarranted windfall for interexchange carriers and less incentive to invest in rural telecommunications infrastructure. A rural ILEC's deployment of new technologies should not be a cause of lower access charge revenues.

The FCC's rules should provide incentives for investment in high-cost markets. The FCC should forbear from price regulation of advanced telecommunications services. The FCC should specifically exempt any small ILEC serving less than 50,000 access lines from any expanded interconnection, unbundling and resale rules it may adopt for larger ILECs.

The "pricing reform" advocated by the Alliance for Public Technology is flawed and contrary to the public interest. Everyone benefits when local service rates remain affordable, especially in rural areas. Universal service is much more than providing broadband access for schools and libraries. The FCC needs to ensure the affordability of basic, voice grade services as its first universal service priority.

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Inquiry Concerning Deployment of)	
Advanced Telecommunications)	
Capability to All Americans in a Reasonable)	CC Docket No. 98-146
And Timely Fashion, and Possible Steps)	
To Accelerate Such Deployment)	
Pursuant to Section 706 of the)	
Telecommunications Act of 1996)	

**REPLY COMMENTS OF CENTRAL SCOTT TELEPHONE CO.
AND ELKHART TELEPHONE COMPANY, INC.**

Central Scott Telephone Co. ("CSTC") and Elkhart Telephone Company, Inc. ("ETC") respectfully submit the following reply comments to the Federal Communications Commission's ("FCC") Notice of Inquiry¹ in the above-captioned proceeding. CSTC and ETC are two small incumbent local exchange carriers ("ILECs") serving small towns and rural markets in Scott County, Iowa and Morton County, Kansas respectively, which have joined together to file reply comments in this proceeding to support policies that encourage the deployment of advanced telecommunications capability² in rural markets. Our reply comments are limited generally to the FCC's questions about advanced telecommunications capability in rural areas.

¹ *Inquiry Concerning Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996*, Notice of Inquiry, CC Docket No. 98-146, FCC 98-187 (rel. August 7, 1998) ("*Section 706 Inquiry*").

² Section 706(c)(1) of the Telecommunications Act of 1996 (47 U.S.C. §706(c)(1)) defines advanced telecommunications capability as "without regard to any transmission media or technology, as high-speed, switched, broadband telecommunications capability that enables users to originate and receive high-quality voice, data, graphics, and video telecommunications using any technology." *See also, Section 706 Inquiry* at ¶13.

Contrary to the comments of many parties, including the Association for Local Telecommunications Services (“ALTS”), that argue³ that the FCC should adopt a single set of rules and policies for all ILECs, rural markets are different than urban markets. Rather, the FCC should adopt rules and policies for small ILECs as proposed in these reply comments.

The Nature of Rural Markets

In a single paragraph,⁴ the FCC asks several thoughtful questions about the deployment of advanced telecommunications capability in rural markets. Before answering those questions, we believe that a brief discussion of rural markets, including their demography and geography, is appropriate. While no two rural markets are alike, there are two fundamental principles that apply to all rural markets. Rural markets have fewer customers than urban and suburban markets. Also, rural customers are located at greater distances from both the serving ILEC’s central office switch and from each other, than are customers in other markets.

Therefore, because of these factual differences, it costs smaller carriers operating in rural markets more per customer to serve their customers. In addition, a small, rural carrier has fewer customers to which to sell services and from which to recover its costs, including fixed costs. These basic principles apply whether the technology at issue is analog voice services provided with electromechanical switches over multiparty lines, or digital data and video services

³ ALTS Comments at 12 *et. seq.*

⁴ *Section 706 Inquiry* at ¶65.

provided with ATM technology and fiber optic cables. Unless the small, rural carriers can generate sufficient revenues to cover the costs of deploying a new technology, it will not be deployed in rural markets.

CSTC and ETC respectfully, but forcefully, urge the FCC to keep these critical points in mind and not lose sight of rural concerns as the FCC considers these very important policy issues. If the FCC follows the recommendations set forth herein, the Commission will adopt policies for small carriers serving rural markets that are flexible and rely on market forces, rather than federal government regulations, to accomplish their goals. Those policies, in turn, will foster increased investments in rural markets and more and better choices for rural consumers.

A. Service Availability and Service Quality in Rural Markets Often Exceeds That of Many Urban Markets

In the early days of telephony, rural markets normally lagged urban markets in both the type of new technology deployed and services offered. As the FCC notes,⁵ many rural areas of the country did not even have telephone service until the Rural Electrification Administration (“REA”) began its program of subsidized loans to carriers willing to serve rural areas in the 1930s. In 1945, less than one-third of the farms in the United States had telephone service.

In most, but not all, rural markets the majority of technology and service gaps with urban markets have closed or at least narrowed substantially. Indeed, many small ILECs have

⁵ *Id.* at n.71.

deployed digital switches and fiber optic cable distribution plant well in advance of larger ILECs in some urban markets. These investments in state-of-the-art technology enable many small ILECs to offer their customers modern services on the same or better time schedules than some larger ILECs.⁶ Service quality provided rural customers by most small ILECs often exceeds that provided by some of the largest ILECs.

A variety of factors have helped close these technology and service gaps. One of the most significant factors is the decline in the prices of new technology, at least in real terms. These price declines stem both from increased competition⁷ and improvements in technology itself. Of course, the general commitment of Congress, the FCC and state regulators to universal service since 1984 has ensured that small ILECs have been able to recover their higher costs of providing service from users of their networks, while keeping local telephone service rates affordable for rural subscribers.⁸ Obviously, the strong and creative management of many rural

⁶ This is especially true if one compares the technology deployed by many small ILECs in rural markets to the technology deployed by many large ILECs in their rural markets. Many large ILECs simply are not willing to make the financial commitment to rural markets that small ILECs make. Delivering the best technology at reasonable prices to customers in a 3000 line exchange is critical if they constitute ten percent of a small ILEC's total market. Delivery of the same technology to a 3000 line exchange is viewed as less critical if those customers constitute a mere 0.0001875% of the total market of a large ILEC serving 16 million access lines. Several large ILECs have correctly recognized these economic facts and have sold many of their rural exchanges to small ILECs. The results have been beneficial to rural customers.

⁷ For example, prior to the 1984 Divestiture of the Bell System, AT&T's Western Electric Company subsidiary rarely sold switches to non-Bell System carriers. Now its successor company, Lucent Technologies competes to sell products and services to many small companies. This increased competition, in turn, has spurred equally strong competitive responses from many other excellent equipment vendors, such as Nortel, Siemens Stromberg-Carlson and Ericsson. However, small ILECs still must pay higher prices for the same equipment than large ILECs that receive large volume discounts.

⁸ As is discussed below, CSTC and ETC are concerned that the FCC's historical commitment to universal service in rural areas has diminished. The FCC seems more concerned about wiring every classroom for Internet access than it is in ensuring that basic telephone service in rural areas remains affordable.

ILECs has led them to invest in cost-effective technology and to keep pace with the service needs and wants of their customers.⁹

B. Rural Markets Need Flexible Regulatory Policies, Rather Than a Forced Appliqué of Rules Designed for the Large Metropolitan Markets

CSTC and ETC fully realize that the FCC and all commenting parties in this docket know these fundamental concepts and facts. However, we tactfully remind the FCC and others of these points because they are all too easy to forget in the great debates over telecommunications policies for the great metropolitan markets. The Commission tailors most rules and regulations to fit the markets with the most customers. From a nationwide prospective, the FCC's approach is sound policy. However, when the FCC's rules and regulations are applied to rural markets, they are often found lacking. CSTC and ETC's purpose is not to criticize the FCC, but rather, to urge the adoption of different policies – as appropriate – for markets served by small, rural carriers. The achievement of a national goal of broad deployment of advanced telecommunications capability simply requires the use of different approaches to smaller carriers and different markets.

⁹ Neither CSTC nor ETC is suggesting that the largest carriers lack talented and creative managers. Indeed, the opposite is true. Rather, the difference is often one of management focus. A large ILEC may serve many more rural customers than a small ILEC, but the large ILEC's rural customers normally constitute a very small proportion of the carrier's customers and revenues. If a larger ILEC places less focus on those customers the impact on the carrier's overall business is minimal. However, if a small, rural ILEC places less focus on its rural customers, the impact on the small carrier's business is likely catastrophic. Market forces will not allow small, rural ILECs to ignore any of their customers and be successful.

C. The Telecommunications Needs of Rural Customers

The FCC asks¹⁰ whether rural communities are more dependent upon telecommunications services than other communities. As a broad general statement, CSTC and ETC do not believe that most rural communities are any more dependent on telecommunications than other areas of the country. Generally, rural America is served by a reasonable transportation infrastructure and local or regional businesses that meet the needs of their communities. In most rural markets, therefore, telecommunications enhances the quality of life for rural residents and facilitates commerce. Of course there are rural communities that are isolated physically from other communities where telecommunications provides a true lifeline link with the rest of society. Those unique markets may need special attention.

Rural communities generally need access to the same technologies as most other communities. For example, a stockbroker serving a rural community of 3000 people needs instant access to financial markets just as does a stockbroker serving a metropolitan area of 3,000,000 persons. In fact, any individual stockbroker probably makes the same demands on telecommunications services regardless of where the stockbroker lives and works. The only difference is that in metropolitan markets, there are likely to be many more stockbrokers in a single office than in a rural market. This higher concentration of stockbrokers in urban markets requires more telecommunications facilities to serve the metropolitan brokerage office than the rural one, even when individual stockbrokers make similar demands on telecommunications

¹⁰ Section 706 Notice at ¶65.

services. However, as discussed above, this example only shows that those carriers operating in urban markets have a greater customer density than carriers operating in rural markets.

D. The Laws of Supply and Demand Are Equally Applicable in Rural Markets as in Metropolitan Markets

There will be an adequate supply of advanced telecommunications capability in rural markets if rural ILECs can obtain sufficient revenues from services to cover the costs of providing services to customers, including the costs associated with the deployment of advanced telecommunications capability. CSTC and ETC do not believe that this result is mainly dependent on how close the rural markets are to a metropolitan area or the general income levels of its residents *per se*. Many factors play an important role in a rural ILEC's decision to deploy new technology and to offer new services. These include: potential customer demand for new services,¹¹ possible application of the technology to multiple services,¹² availability and price of technology, and the rules and regulations affecting the rural ILEC's deployment of technology and offering of new services.

¹¹ While customer income is a key factor in customer demand, the American free market system allows consumers many choices for spending their incomes. Individuals often make purchase decisions without regard to their specific income. In other words, sometimes low-income individuals will purchase a new product despite a fairly high relative price, while some higher income people will refuse to purchase the same product even after the relative price has decreased. CSTC and ETC urge the FCC to avoid fixation on customer income levels for discretionary services such as ADSL. Rather, the FCC should work to develop policies that keep basic telephone service affordable for nearly everyone and that encourage the deployment of as many other services to as many people as possible.

¹² A rural ILEC is more likely to offer xDSL facilities if those facilities can be used to provide multiple services on a cost-efficient basis. For example, if xDSL access could be used by a rural ILEC to provide customers with both high-speed Internet access and video programming without having to operate separate subsidiaries or reduce other regulated telephone rates because of the application of the FCC's sundry cost allocation rules, broader deployment of xDSL technology will occur in rural markets.

Causes of Slow Deployment of New Technology

The FCC asks many probing questions about possible reasons for slow deployment of advanced telecommunications capability. CSTC and ETC suggest that the speed of deployment in any market simply relates to the relationship of costs and revenues. We address both issues and the role that regulatory policies have in affecting them.

A. The FCC's Policies Should Encourage Every Carrier to Invest in New Technologies, Which Will Drive Down Prices for Rural Carriers

Obviously, rural ILECs can deploy more advanced telecommunications capability if their costs decrease as has occurred with fiber optic cable. CSTC and ETC believe that the nature of most telecommunications technology costs are such that costs per unit of capacity decline over time and with increased demand and, in turn, lower prices will increase demand by making advanced telecommunications services affordable for a greater number of rural customers. Rural ILECs will have access to lower priced technology if it is broadly deployed through the networks of large carriers. To the extent that the FCC creates regulatory policies that encourage large ILECs, CLECs, interexchange carriers and wireless operators to deploy new technologies, rural ILECs will have access to similar technologies at lower prices. This development, in turn, allows rural carriers to deploy the same technologies sooner and more ubiquitously in their networks.

On the other hand, if the FCC adopts regulatory policies that encourage one market segment to try to keep other market segments out of those markets that require the deployment of

new technologies, the prices for such new technologies will be higher and rural deployment will proceed much more slowly. CSTC and ETC urge the FCC to keep in mind the economic consequences of its policy decisions.

B. The FCC Must Ensure that Its Cost Allocation Rules Do Not Operate to Discourage Investment in Advanced Telecommunications Capabilities in Order to Create an Access Charge Windfall for Large Interexchange Carriers

FCC regulations also affect regulatory costs and prices that impact technology deployment by rural ILECs. Incremental investment makes sense for a rural ILEC when it will produce sufficient incremental revenues to cover the cost of making this investment or allow the ILEC to make comparable reductions in operating costs. It is important for the deployment of advanced telecommunications capability for regulators to adopt rules that do not require rural ILECs to allocate the costs of new technology among services, such that existing revenues are reduced just because of a rural ILEC's investment in the new technology. More specifically, a rural ILEC should not have to reduce its interstate access charges solely because of changes in cost allocations due to a rural ILEC's investment in new technology. Large interexchange carriers should not be entitled to a windfall because a rural ILEC has upgraded its network or offered new services to end user customers.

If the FCC truly wants to see broadscale deployment of advanced telecommunications capability, as intended by Congress, the FCC must prevent a small ILEC's investment in new technology from becoming another method of reducing interstate access charges through the application of the FCC's cost allocation rules. Rather, the FCC should adopt a "hold harmless"

rule for all small ILECs that invest in a new technology. Small ILECs should not have to allocate the costs associated with investment in advanced telecommunications capability in any manner that causes their interstate access charges to be reduced beyond what they would have been reduced if the new investments had not been made.

If the FCC wants to see high capacity services delivered to rural America, the FCC must not let its separations rules, which tend to focus on capacity as an allocator, be used to allocate fewer costs to interstate access charges. Current revenues for small ILECs must be maintained in order to give small ILECs a chance to earn sufficient incremental revenues to justify investment in advanced telecommunications capability.

CSTC and ETC expect that many large interexchange carriers will argue against this position on the grounds that “they already subsidize rural ILECs” through interstate access charges. Any such response by the interexchange carriers is simply false. The relatively higher interstate access prices that are charged by rural ILECs are not a subsidy. They simply reflect the higher cost of operating in rural areas. A rural ILEC’s higher access prices are no different than the higher rates charged for hotel rooms in large cities, such as New York, Washington and San Francisco, that reflect the higher costs of operating a hotel in these cities than operating a small motel in a rural community in Iowa.

Similarly, a business may well charge its customers located on Manhattan Island, New York the very same price for a product or service as the same business does to its customers

located in Manhattan, Kansas even though it costs the business much more to send its salespeople on a business trip to New York City. Yet, no one argues that customers in Kansas are somehow subsidizing customers in New York. Rather, people just accept that this is how markets work. The FCC and the large interexchange carriers should do the same.

If the FCC wants to see advanced telecommunications capability deployed broadly in rural communities, the FCC must stop listening to these false “rural subsidy” arguments made by behemoth interexchange carriers. Since the universal service requirements of Section 254 mandate comparability to urban customers in both rates and services for rural Americans, it is time to cease the endless attacks on higher-cost, rural ILECs. Rural areas are more costly to serve and interstate access charges must reflect those higher costs.

C. Different Regulatory Policies Are Needed for Those Carriers Whose “Last Mile of Plant” Extends for Many Miles

The FCC expresses its concerns about the ability of new entrants to build the “last mile of plant” to reach residence and small business customers.¹³ CSTC and ETC appreciate the significance of this question in many markets. However, in its efforts to find answers to this question, we urge the FCC not to forget that it generally takes several “last miles of plant” to reach most rural customers. It is unlikely that many new entrants will be quick to invest in that amount of plant to serve rural customers. However, CSTC and ETC stand ready to make those investments whenever economically and technically feasible, even though they must invest substantially greater sums than urban carriers to serve an equal number of customers.

¹³ Section 706 Notice at ¶68.

The real question is: Will the FCC develop different and flexible rules for rural markets that recognize the higher costs of operating in those markets? If the FCC realizes that New York Mills, Minnesota is a different market than New York, New York and, therefore, does not continue to apply rules that treat the East Ottertail Telephone Company as if it were Bell Atlantic, the FCC will see advanced telecommunications services provided to many residential customers in both communities. CSTC and ETC offer specific recommendations on what policies and rules the FCC should adopt below.

D. Forbearance from Price Regulation

The FCC can encourage the deployment of advanced telecommunications capability in rural markets by forbearing from any FCC price regulation of these services. State commissions that have the same goals should do likewise. Whether ADSL, for example, is an interstate or intrastate service, the relative amount of this specific service that will be provided by any single small or rural ILEC is *de minimus*. There is no need for regulators to set prices for this service through rate-of-return or price cap-like regulation.

Small ILECs have an economic incentive to price ADSL access at levels that cover costs while encouraging sales of the service. End user customers in rural markets have a good understanding of prices for comparable services in other markets and are not likely to purchase services that are priced excessively. For example, many small ILECs offer dial-up Internet access service, including e-mail, at prices in the area of \$20 per month. This price is comparable to those offered by other vendors around the United States and is constrained by those prices. If

a small ILEC wanted to offer the same Internet access service at a rate of \$100 per month, the small ILEC would make few, if any, sales and would likely receive so many complaints by customers about “price gouging” that the small ILEC would likely suffer damage to its customer good will. Therefore, market forces operate to limit a small ILEC’s ability to charge excessive prices even when a small ILEC has no direct competitors.

E. The Imposition of Expanded Interconnection, Unbundling and Resale Rules on Rural ILECs Will Cause Rural Markets to Lag Metropolitan Markets

The FCC has proposed a number of new rules and policies that would mandate the imposition of even more stringent expanded interconnection, unbundling and resale rules for advanced telecommunications services on ILECs in the companion rulemaking docket to this proceeding.¹⁴ It is not the intent of CSTC and ETC to address specifically herein the problems with such an approach in rural markets. CSTC and ETC simply wish to note that the application of those policies in rural markets would create an uneconomic competitive advantage for those who would engage in unfair, cherry-picking competition with small, rural ILECs. This approach, when coupled with the higher costs and lower customer densities already facing small ILECs, would likely force most, if not, all small and rural ILECs to avoid making the types of investments necessary to bring advanced telecommunications capabilities to rural America.

The FCC should, therefore, create a specific exemption from any rules adopted in the 98-147 NPRM proceeding for all ILECs that serve less than 50,000 access lines. Removing the risk

¹⁴ *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, Memorandum Opinion and Order and, Notice of Proposed Rulemaking, CC Docket No. 98-147, FCC 98-188 (rel. Aug. 7, 1998) (“98-147 NPRM”)

of unfair, cherry-picking competition from a small ILEC's business decision process will go far to encourage investments in the technologies and facilities necessary to offer advanced telecommunications services in rural markets.

The "Pricing Reform" Advocated by the Alliance for Public Technology Is Flawed and Contrary to the Public Interest

CSTC and ETC must oppose the so-called "pricing reform" suggested by the Alliance for Public Technology ("APT") that calls for raising the price of local service to levels that will attract new entrants. Traditionally, residential service has been priced below its economic cost. While it is appropriate for the exact relationship of price-to-cost to vary as conditions warrant, we submit that keeping residential rates affordable, especially in rural areas, has been crucial to the success of the telecommunications industry and universal service. This practice of keeping residential service rates affordable must be continued.

APT is correct, in theory, that raising local rates substantially, such as from \$15 per month to \$35 per month, would provide incentives for new entrants to serve residential customers in most markets. However, CSTC and ETC submit that it is likely that a new entrant would enter this local market and offer competing residential service at a rate between \$30-to-\$32 per month. The result is that residential customers would have a choice in local telephone service providers, but they are paying at least twice as much for local telephone service. This is not in the public interest. We suggest that, if the FCC were to gather the data, an overwhelming

majority of customers would prefer to continue to pay affordable rates for local service than have a choice of local exchange service suppliers.

More important is that the APT proposal ignores the economic value of universal service – especially to interexchange carriers. Keeping residential rates affordable allows more people to be connected to the network, which adds more value to the calling public. That, in turn, makes long distance service more valuable to customers and more profitable to interexchange carriers.¹⁵ The ability to reach most people in the United States by telephone shows the great value of universal service and terminating access. These values should be captured in interstate access rates, particularly on the terminating end, and not given away to interexchange carriers.

Universal Service and Advanced Telecommunications Capability

The FCC asks about the relationship of universal service support and the deployment of advanced telecommunications capability. CSTC and ETC commend the FCC for recognizing the importance of this issue. However, we are equally dismayed that so much of the FCC's focus continues to be just on schools and libraries. CSTC and ETC do not suggest for a moment that the delivery of advanced telecommunications capability to all schools and libraries is not important. Indeed, both CSTC and ETC have always been and will continue to be actively

¹⁵ Even additional residential access lines add terminating access value to interexchange carriers. For example, if the parents of a household add a second telephone line for use by the children in order to keep the main line free, long distance callers are more likely to be able to reach the parents on the first call. The ability to complete calls the first time adds to the overall customer satisfaction of long distance callers, which, of course, benefits the interexchange carriers. ILECs should be allowed to capture some of this value provided to interexchange carriers in the form of higher terminating interstate access charges.

involved with meeting the telecommunications needs of their local schools and libraries.

However, despite its current fashionability, wiring the nation's schools and libraries is neither the key to educational success nor the essence of universal service.

Few parents or teachers would put the delivery of broadband connections to each classroom as the number one educational need in their local schools. Many other items, such as increasing academic standards, attracting well-qualified teachers, modernizing antiquated school buildings, and reducing class size, would likely be viewed as more important by most parents and teachers. On the other hand, broadband telecommunications access can be an additional tool for teachers to use in educating children, but broadband access is still only a tool and must be kept in perspective. Internet access in schools alone is not equal to universal service as intended by Congress.

It serves little purpose for a school to have all the latest telecommunications technologies in each classroom if the teachers cannot reach all of their students' parents because some of those parents have removed telephone service in their homes because their local rates have quadrupled due to reductions in access charges. The first purpose of universal service must continue to be the affordability of basic voice-grade telecommunications services for all Americans, especially for those who live in rural areas. In addition, Congress has now mandated that rates for local service in rural areas must be reasonably comparable to those in urban areas for comparable services. CSTC and ETC strongly recommend that the FCC take this mandate into account in making its policy decisions.

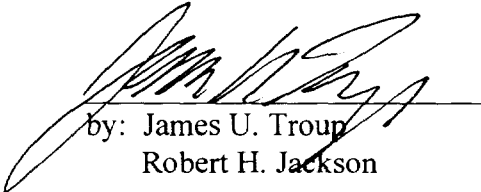
In order to encourage the deployment of advanced telecommunications capabilities in rural areas, as well as to the schools and libraries, the FCC should take positive action in other pending regulatory matters. The FCC should adopt revised universal service funding that covers all of the higher costs of providing telephone service in high-cost rural areas. Any separations reform adopted by the FCC should contribute to the maintenance of universal service and should reduce the costs of regulatory compliance for small ILECs. Also, the FCC should open a broad general inquiry into the price deregulation of small and rural ILECs, which would allow these small carriers to devote more of their limited resources to meeting the service needs of their rural customers. Any access charge reforms for rate-of-return regulated ILECs that are adopted by the FCC should promote universal service and provide small ILECs with sufficient pricing flexibility to avoid unfair, cherry-picking competition.

These regulatory improvements would strengthen small ILECs in their ability to meet the current and future telecommunications needs of their customers. They also would provide additional incentives for small ILECs to invest in advanced telecommunications technologies in rural markets, despite the higher costs and lower customer densities associated with those markets. The FCC should make these regulatory changes soon.

Conclusion

For the reasons set forth above, the FCC should develop flexible and deregulatory policies for rural areas that will allow small and rural ILECs to invest in new technologies and deliver advanced telecommunications capabilities in rural markets.

Respectfully submitted,
Central Scott Telephone Co. and
Elkhart Telephone Company, Inc.



by: James U. Troup
Robert H. Jackson

Arter & Hadden, LLP
1801 K Street, N.W., Suite 400K
Washington, D.C. 20006
202-775-7100

Their Attorneys

CERTIFICATE OF SERVICE

I, Stella H. Hughes, hereby certify that on October 16, 1998, a copy of the foregoing Reply Comments of Central Scott Telephone Company and Elkhart Telephone Company, and Certificate of Service has been served on the following parties, by hand delivery or by United States Postal Service, first class, postage prepaid.

Ms. Magalie Roman Sales*
Secretary
Federal Communications Commission
1919 M Street, N. W., Room 222
Washington, DC 20554

William E. Kennard*
Chairman
Federal Communications Commission
1919 M Street, N. W., Room 222
Washington, DC 20554

Susan Ness*
Commissioner
Federal Communications Commission
1919 M Street, N. W., Room 222
Washington, DC 20554

Michael K. Powell*
Commissioner
Federal Communications Commission
1919 M Street, N. W., Room 222
Washington, DC 20554

Harold Furchtgott-Roth*
Commissioner
Federal Communications Commission
1919 M Street, N. W., Room 222
Washington, DC 20554

Gloria Tristani*
Commissioner
Federal Communications Commission
1919 M Street, N. W., Room 222
Washington, DC 20554

Kathryn C. Brown*
Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554

Jane Jackson*
Chief
Competitive Pricing Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

Competitive Pricing Division*
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

International Transportation Service, Inc.*
1231 20th Street, N.W.
Ground Floor
Washington, D.C. 20036

Attorneys for Time Warner
Willkie, Farr & Gallagher
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20026

Mark A. Grannis
Evan R. Grayer
Attorneys for Teledesic LLC
Harris, Wiltshire & Grannis LLP
1200 Eighteenth Street, NW
Washington, DC 20036

Alliance for Public Technology
Maureen A. Lewis
901 15th Street, NW, Suite 230
Washington, DC 20038-230

Allegiance Telecom, Inc.
Robert W. McCausland, Vice President, Regulatory and Interconnection
1950 Stemmons Freeway
Suite 3026
Dallas, TX 75207-3118

Attorneys for Panamsat Corporation
Joseph A. Godles
W. Kenneth Ferree
Goldberg, Godles, Wiener & Wright
1229 Nineteenth Street, NW
Washington, DC 20036

Steven Gorosh, Vice President and General Counsel
NorthPoint Communications, Inc.
222 Sutter Street
San Francisco, CA 94108

Michael L. Theis, President
Kiesling Consulting LLC
6401 Odana Road
Madison, WI 53719-1155

Carol C. Henderson
Executive Director
American Library Association Washington Office
1301 Pennsylvania Avenue, N.W.
Suite 403
Washington, D.C. 20004

Attorneys for GTE Service Corporation
R. Michael Senkowski
Jeffrey S. Linder
Wiley, Rein & Fielding
1776 K Street, NW
Washington, DC 20006

Cellular Telecommunications Industry Association
Andrea D. Williams, Assistant General Counsel
Michael F. Altschul, Vice President and General Counsel
Randall S. Coleman, Vice President for Regulatory Policy and Law
1250 Connecticut Avenue, NW
Suite 200
Washington, DC 20036

Public Service Commission Of The District of Columbia
Richard A. Beverly, General Counsel
717 Fourteenth Street, NW
2nd Floor
Washington, DC 20005

Attorneys for Northern Telecom, Inc.
Stephen L. Goodman
Halprin, Temple, Goodman & Sugrue
1100 New york Avenue, NW
Suite 650, East Tower
Washington, DC 20005

John G. Lamb, Jr.
Northern Telecom, Inc.
2100 Lakeside Boulevard
Richardson, TX 75081-1599

Attorneys for OPTEL, Inc.
W. Kenneth Ferree
Henry Goldberg
Goldberg, Godles, Wiener & Wright
1229 19th Street, NW
Washington, DC 20036
Michael E. Katzenstein, Vice President and General Counsel
OPTEL, Inc.
1111 W. Mockingbird Lane
Dallas, TX 75247

Attorneys for the Coalition of Utah Independent Internet Service Providers (CUIISP)
William J. Evans
Parsons, Behle & Latimer
One Utah Center
201 South Main Street
Suite 1800
Post Office Box 45898
Salt Lake City, UT 84145-45898
Donald Weightman
510 C Street, NE
Washington, DC 20002

Attorneys for the National Telephone Cooperative Association
L. Marie Guillory
Jill Canfield
2626 Pennsylvania Avenue, NW
Washington, DC 20037

Attorneys for Winstar Communications, Inc.
Russell M. Blau
Kathleen L. Greenan
Swidler, Berlin, Shereff, Friedman, LLP
3000 K Street, NW, Suite 300
Washington, DC 20007
Robert Berger
Russell Merbeth
Barry Ohlson
Winstar Communications, Inc.
1146 19th Street, NW
Suite 200
Washington, DC 20036

Attorneys for Campaign for Telecommunications Access
David J. Newburger
Newberger & Vossmeier
One Metropolitan Square, Suite 2400
St. Louis, MO 63102

Attorneys for The Wireless Communications Association International, Inc.
Paul J. Sinderbrand
Robert D. Primosch
Jonathan V. Cohen
Steven D. Hayes
Wilkinson, Barker, Knauer & Quinn, LLP
2300 N Street, NW
Suite 700
Washington, DC 20037

Grant Nodine, Chief Web Technologist
Mercury Seven, Inc.
55 John Street, 8th Floor
New York, NY 10038

The Organization for the Promotion and Advancement of Small
Telecommunications Companies
Stuart Polikoff, Director for Government Relations
Stephen Pastorkovich, Legislative and Regulatory Analyst
21 Dupont Circle
Suite 700
Washington, DC 20036

Attorneys for Universal Service Alliance
Carl K. Oshiro
100 First Street, Suite 2540
San Francisco, CA 94105

Randall Wolf
IBM Corporation
PC Server Performance Group
rwolf@raleigh.ibm.com

Center for Media Education, Et Al.
Angela J. Campbell, Esq.
Institute for Public Representation
Citizens Communications Center Project
Georgetown University Law Center
600 New Jersey Avenue, NW
Washington, DC 20002

Cheryl Leanza, Esq.
Andrew Schwartzman, Esq.
Gigi Sohn, Esq.
Media Access Project
1707 L Street, NW
Suite 400
Washington, DC 20036

Lawrence J. Spiwak, General Counsel
Technology Entrepreneurs Coalition
5335 Wisconsin Avenue, NW
Suite 440
Washington, DC 20025

Terrence J. Ferguson, Senior Vice President and General Counsel
Level 3 Communications, Inc.
3555 Farnam Street
Omaha, NE 68131

Jeffrey L. Sheldon, Vice President and General Counsel
UTC
1140 Connecticut Avenue, NW
Washington, DC 20036

Ashley C. Schnnauer
Information Renaissance
600 Grant Street
Suite 2980
Pittsburgh, PA 15219

Attorneys for Cincinnati Bell Telephone Company
Douglas E. Hart
Frost & Jacobs LLP
2500 PNC Center
201 East Fifth Street
Cincinnati, OH 45202

Croan O'Connell, Vice President of Industry Affairs
Association for Local Telecommunications Services
888 17th Street, NW
Suite 900
Washington, DC 20036

Richard J. Metzger
Emily M. Williams
Association for Local Telecommunications Services
888 17th Street, NW
Suite 900
Washington, DC 20006

Stephen N. Brown, Director of Public & Technology Policy
New World Paradigm, Ltd.
401 12th Street South
Suite 1421
Arlington, VA 22202

Virtual Hipster
149 Industrial Way
Fallon, NV 89406

Skybridge LLC
Phillip L. Spector
Jeffrey H. Olson
Patrick S. Campbell
Paul, Weiss, Rifkind, Wharton & Garrison
1615 L Street, NW
Suite 1300
Washington, DC 20036

Tele-Publishing, Inc.
Peter J. Brennan, Senior Director of Development
126 Brookline Avenue
Boston, MA 02215

Kathryn Clodfelter
6341 W. Newton Stewart Square
Taswell, IN 47175

Jim Warner
CATS - Communications Building
University of California
Santa Cruz, CA 95064

David F. Fisher, Vice President, General Counsel and Corporate Secretary
ADC Telecommunications, Inc.
12501 Whinewater Drive
Minnetonka, MN 55343

Jeffrey H. Smith
GVNW Inc.
P.O. Box 2330
8050 SW Warm Springs Street
Suite 200
Tualatin, OR 97062

Caress D. Bennet
Gregory W. Whiteaker
Bennet & Bennet, PLLC
1019 Nineteenth Street, NW
Suite 500
Washington, DC 20036

Circuit City Stores, Inc.
Alan McCollough, President & COO
W. Stephen Cannon, Senior Vice President & General Counsel
9950 Mayland Drive
Richmond, VA 23233

SBC Communications, Inc.
James D. Ellis
Robert M. Lynch

Durward D. Dupre
Darryl W. Howard
One Bell Plaza, Room 3703
Dallas, TX 75202

Commercial Internet Exchange Association
Robert D. Collet, Chairman of the Board
Barbara A. Dooley, Executive Director
Ronald L. Plesser
Mark J. O'Connor
Stuart P. Ingis
Piper & Marbury LLP
Seventh Floor
1200 Nineteenth Street, NW
Washington, DC 20036

Michael Mazarus
Fletcher, Heald and Hildreth, PLC
1300 North 17th Street, 11th Floor
Arlington, VA 22209
Kathryn A. Kleiman
Internet Matters
P.O. Box 25876
Alexandria, VA 22313
Kelley Drye & Warren LLP
Brad E. Mutschelknaus
John J. Heitman
1200 Nineteenth Street, NW
Fifth Floor
Washington, DC 20036

Attorneys for Teligent, Inc.
Willkie Farr & Gallagher
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20036
Teligent, Inc.
8065 Leesburg Pike
Vienna, VA 22182
Susan M. Eid
David Rubashkin
Cameron Graham
MediaOne Group, Inc.
1919 Pennsylvania Avenue, NW
Suite 610
Washington, DC 20006
Howard J. Symons
Gil M. Strobel
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC
701 Pennsylvania Avenue, NW
Suite 900
Washington, DC 20004
David Ellen, Esq.
Cablevision Systems Corp.
One Media Crossways
Woodbury, NY 11797

Kelley Drye & Warren LLP

Brad E. Mutschelknaus

John J. Heitman

1200 Nineteenth Street, NW

Fifth Floor

Washington, DC 20036

Riley M. Murphy, Executive Vice President and General Counsel

Charles H.N. Kallenbach, Vice President - Regulatory Affairs

e.spire Communications, Inc.

133 National Business Parkway

Suite 200

Annapolis Junction, MD 20701

MCI Communications Corp.

Kecia Boney

Dale Dixon

Lisa B. Smith

1801 Pennsylvania Avenue, NW

Washington, DC 20006

WorldCom, Inc.

David N. Porter

Richard L. Fruchterman, III

Richard S. Whitt

1120 Connecticut Avenue, NW

Suite 400

Washington, DC 20036

Anthony C. Epstein

Jenner & Block

601 Thirteenth Street, NW

Washington, DC 20005

Kevin Sievert

Glen Grochowski

MCI Communications Corp.

400 International Parkway

Richardson, TX 75081

John T. Lenaham

Michael S. Pabian

Counsel for Ameritech

Room 4H82

2000 West Ameritech Center Drive

Hoffman Estates, IL 60196-1026

Telecommunications Resellers Association

Charles C. Hunter

Catherine M. Hannan

Hunter Communications Law Group

1620 I Street, NW

Suite 701

Washington, DC 20006

Bell Atlantic
Robert H. Griffen
Edward D. Young III
Michael Glover
1320 North Court House Road
Eighth Floor
Arlington, VA 22201

United States Telephone Association
Lawrence E. Sarjeant
Linda Kent
Keith Townsend
John Hunter
1401 H Street, NW
Suite 600
Washington, DC 20005

Sprint Corp.
Leon M. Kestenbaum
Jay C. Keithley
Richard Juhnke
Norina T. Moy
1850 M Street, NW
Suite 1110
Washington, DC 20036

Information Technology Association of America
Jonathan Jacob Nadler
Brian J. McHugh
Squire, Sanders & Dempsey LLP
1201 Pennsylvania Avenue, NW
Box 407
Washington, DC 20044

General Services Administration
1800 F Street, NW
Room 4002
Washington, DC 20405
Emily C. Hewitt
George N. Barclay
Michael J. Ettner
Snively King Majors O'Connor & Lee, Inc.
1220 L Street, NW
Suite 410
Washington, DC 20005

Charles M. Brewer, Chairman and Chief Executive Officer
MindSpring Enterprises, Inc.
1430 West Peachtree Street
Suite 400
Atlanta, GA 30309

BellSouth Corp.
M. Robert Sutherland
Michael A. Tanner
Stephen L. Earnest
1155 Peachtree Street, NE
Suite 1700
Atlanta, GA 30309
Gary M. Epstein
Karen Brinkman
James H. Barker
Johanna Mikes
Latham & Watkins
1001 Pennsylvania Avenue
Suite 1300
Washington, DC 20004-2505

Qwest Communications Corp.
Joseph T. Garrity, Senior Director - Legal Regulatory and
Legislative Affairs and Corporate Secretary
555 17th Street
Denver, CO 80202
Earl E. Comstock
Sher & Blackwell
Suite 900
1850 M Street, NW
Washington, DC 20036
Peter A. Rohrbach
Linda L. Oliver
Hogan & Hartson, LLP
Columbia Square
555 Thirteenth Street, NW
Washington, DC 20004

DSL Access Telecommunications Alliance (DATA), ET al
Jeffrey Blumenfeld
Glenn B. Manishin
Frank V. Paganelli
Colin Alberts
Blumenfeld & Cohen - Technology Law Group
1615 M Street, NW
Suite 700
Washington, DC 20036
Kevin Timpone
Esther H. Rosenthal
First World Communications, Inc.
9333 Genesee Avenue
San Diego, CA 92121
Michael D. Specht
First Regional TeleCOM LLC
2814 Upton Street, NW
Washington, DC 20008

Retail Internet Service Providers, Et al
Kelley Drye & Warren LLP
Brad E. Mutschelknaus
John J. Heitman

1200 19th Street, NW
Fifth Floor
Washington, DC 20036

W. Scott McCollough

Rina Y. Hartline

McCollough and Assoc.

1801 North Lamar, Suite 104
Austin, TX 78701

Donald Weightman

510 C Street, NE
Washington, DC 20002

The National Cable Television Assoc.

Daniel L. Brenner

Neal M. Goldberg

David L. Nicoll

1724 Massachusetts Ave., NW
Washington, DC 20036

Howard J. Symons

Michelle M. Mundt

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC

701 Pennsylvania Avenue, NW
Suite 900
Washington, DC 20004

American Public Power Assoc.

James Baller

Sean Stokes

Lana Meller

The Baller Law Group, PC

1820 Jefferson Place, NW
Suite 200
Washington, DC 20036

AT&T Corp.

Mark C. Rosenblum

Ava B. Kleinman

James H. Bolin, Jr.

295 North Maple Avenue
Room 325J1
Basking Ridge, NJ 07920

Peter D. Kessler

Michael Doss

James P. Young

Sidley & Austin

1722 Eye Street, NW
Washington, DC 20006

Transwire Communications, Inc.
Randall B. Lowe
J. Todd Metcalf
Julie A. Kaminski
Renee Roland Crittendon
Piper & Marbury, LLP
1200 Nineteenth Street, NW
Washington, DC 20036

Jordon Clark, President
United Homeowners Association
655 15th Street, Suite 460
Washington, DC 20005

John H. Harwood II
Lynn R. Charytan
Jonathan J. Frankel
Matthew A. Brill
Wilmer, Cutler & Pickering
2445 M Street, NW
Washington, DC 20037
Robert B. McKenna
Jeffrey A. Brueggeman
US West, Inc.
1020 19th Street, NW
Washington, DC 20036

PSINet, Inc.
Ronald L. Plessner
James J. Halpert
Mark J. O'Connor
Piper & Marbury LLP
Seventh Floor
1200 Nineteenth Street, NW
Washington, DC 20036

New Networks Institute
Bruce Kushnick, Executive Director
826 Broadway
Suite 900
New York, NY 10003

Russ Laughlin
webmaster@essex1.com
Essex Computers
2 East Third Street
Sterling, IL 61081

Moultrie Independent Telephone Company
David A. Irwin
Irwin, Campbell & Tannenwald PC
1730 Rhode Island Avenue, NW
Suite 200
Washington, DC 20036-3101

National Rural Telecom Association
Margot Smiley Humphrey
Koteen & Naftalin, LLP
1150 Connecticut Avenue, NW
Suite 1000
Washington, DC 20036

Phones For All, Inc.
Dana Frix
Kathleen L. Greenan
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007

America OnLine, Inc.
George Vradenburg, III
William W. Burrington
Jill A. Lesser
Steven N. Teplitz
1101 Connecticut Avenue, NW
Suite 400
Washington, DC 20036

Network Plus, Inc.
Andrew D. Lipman
Tamar E. Finn
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007

Media Fusion Corp.
Donna N. Lampert
Yaron Dori
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC
701 Pennsylvania Avenue, NW
Suite 900
Washington, DC

Intermedia Communications, Inc.
Jonathan E. Canis
Kelley Drye & Warren LLP
1200 19th Street, NW
Fifth Floor
Washington, DC 20036

Verio, Inc.
Cheryl A. Tritt
Charles H. Kennedy
Morrison & Foerster LLP
2000 Pennsylvania Avenue, NW
Suite 5500
Washington, DC 20006-1888

Bell Communications Research, Inc.
Michael S. Slomin, Senior Counsel
445 South Street, MCC-1J130R
Morristown, NJ 07960

Comcast Corp.
Christopher W. Savage
James F. Ireland
Karlyn D. Stanley
Cole, Raywid & Braverman, LLP
1919 Pennsylvania Avenue, NW
Suite 200
Washington, DC 20006
Joseph W. Waz, Jr., Vice President, External Affairs & Public Policy Counsel
1500 Market Street
Philadelphia, PA 19102
James R. Coltharp, Senior Director, Public Policy
Senior Director, Public Policy
1317 F Street, NW
Washington, DC 20004

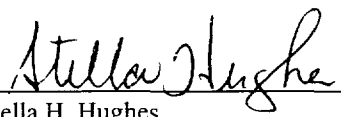
PageNet Network, Inc.
Paul G. Madison
Michael J. Francesconi
Kelley Drye & Warren LLP
1200 19th Street, NW
Fifth floor
Washington, DC 20036

Wireless Information Networks Forum
Wayne Moyers, Vice President
1200 19th Street, NW
Suite 300
Washington, DC 20036-2401

Williams Communications, Inc.
David P. Batow
Joseph W. Miller
William H. Gault
P.O. Box 2400
Suite 4100
One Williams Center
Tulsa, OK 74102

Public Service Commission of the State of New York
Lawrene G. Malone, General Counsel
Three Empire State Plaza
Albany, NY 12223

*HAND DELIVERED



Stella H. Hughes

154299